

## GAAP Instructions for Departments – FY 2006

**Issue Date:** May 26 2006

**Effective Date:** Immediately

### Executive Summary

This set of instructions supersedes the existing GAAP Instructions previously issued on June 16, 2005. It is meant to compliment the Government Accounting Standards Board (GASB) Statement 34 implementation guide issued in 2002, which is documented in various other policies and procedures, posted in the Knowledge Center, including, but not limited to, fixed assets guidance.

### Considerations

Throughout the year the Commonwealth accounts for its financial operations on the statutory basis of accounting, often referred to as the "budgetary basis". The Commonwealth's budget and the Statutory basis financial statements follow the accounting principles defined by Massachusetts' law.

For its Comprehensive Annual Financial Report (CAFR), the Commonwealth reports on the basis of generally accepted accounting principles (GAAP) as defined for governments by the Governmental Accounting Standards Board. The CAFR includes information about the extent of certain future expenditure commitments that have been made in the current and prior years and any revenue earned but not yet collected to meet them. The CAFR also includes information about the financial operations of certain independent authorities through which state business is conducted.

We have submitted the FY2005 CAFR for review as part of the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting Program. The past fifteen CAFRs have received this award. Such accomplishments are important indicators to the financial community that the Commonwealth continues to meet the highest standards for financial accounting and reporting.

This could not have been accomplished without the cooperation and effort of those who prepared the GAAP departmental information included in the CAFR. The Office of the Comptroller (CTR) extends its appreciation for FY2005, and thanks in advance, to many individuals who will be working to ensure that the FY2006 effort is completed on schedule. With your help, the Commonwealth's financial reporting will continue to improve.

We also remain committed to making GAAP reporting as efficient as possible. Departmental cooperation is valued, and we welcome ideas for further improvement.

### Policy

#### ***Reporting Requirements***

##### **Accounts Receivable:**

The MMARS policy, *"Accounts Receivable – Receivable Recognition and Reconciliation"* as posted in the Knowledge Center has guidance on the recognition and reporting of receivables. The FY 2006 Accounts Receivable Report (Exhibit 2) will be available around July 14. Do not change **any outstanding accounts receivable amount or the current and prior year revenue amounts reported**. All FY2006 accounts receivable billing related activity must be posted to FY2006 by July 09, 2006.

*Additional Instructions for GAAP Reporting* -On a statutory basis, revenue is generally recorded when the confirming cash is collected. Under GAAP, revenue is measured when earned. In this context, "accounts

receivable" (A/R) represent additional revenue earned, but not yet measured on the statutory basis, for services performed or goods provided on or before June 30. Under GAAP, the receivable exists if the service was performed or the goods were provided on or before the June 30 year-end cut-off, regardless of when the department posts the transactions to MMARS or sends its bills.

*MMARS Reporting* -To Close FY2006, departments are required to use MMARS to process the appropriate accounts receivable (RE) documents to accurately report all FY2006 **Earned Revenue/Accounts Receivable** by July 09, 2006, as outlined in the Comptroller's FY2006 Closing and FY2007 Opening Instructions. From July 1, 2006 through July 09, 2006 accounts receivable transactions (RE or WO's) will require Comptroller approval to ensure that they post to the correct fiscal year. After July 09, all questions regarding any FY2006 accounts receivable documents must be facilitated through your Revenue Bureau coordinator.

*The Accounts Receivable Report* is department-based and organized by MMARS fund and revenue category, with revenue source code detail. This report, which will be issued as of July 09, displays final FY2005 revenue, FY2006 revenue recorded and the FY2006 MMARS A/R balance for each revenue source through July 9<sup>th</sup>. This report also contains blank columns for manual posting of pending accounts receivable, uncollectibles and deferred revenue.

The FY2005 Prior Year Revenue Column displays final FY2005 revenues. This amount should not be changed. The FY2006 Current Year Revenue Column will display FY2006 revenue recorded through July 09. Do not change this amount for FY2006 revenue activity recorded after July 09. Departments with FY2006 revenue questions should contact the Comptroller's Accounting Bureau for guidance.

**If the total A/R for your department is less than \$1,000,000, then you do not need to do any analysis for GAAP reporting purposes; just review and check off the Transmittal Form (Exhibit 1).**

**If the receivable is more than \$1,000,000, a full analysis is required.** You need to review the information for completeness, identify the uncollectible amounts, record any related pending accounts receivable and any Deferred A/R. Only departments with long billing cycles should have pending receivables.

*Special Situations -Federal Grants in MMARS Fund 0100 report statutory basis accounts receivable for certain cash draws received between July 1 and August 31 and credited to the prior budget fiscal year to match accounts payable payments. The Comptroller's Revenue Bureau will ensure proper GAAP reporting for this activity for departments participating in the automated central draw. Departments not using the central draw, established to ensure compliance with the Federal Cash Management Improvement Act (CMIA), should contact the Comptroller's Revenue Bureau for guidance. Departments do not need to prepare GAAP information for MMARS Fund 0100 Federal Grant receivables. Please refer to the "Cash Management Improvement Act – Automated Central Draw Policy" posted in the Knowledge Center for further instructions*

*Analysis* -Departments will document their analysis of amounts they have posted to the Accounts Receivable Analysis form (Exhibit 3). An explanation **must** be provided whenever a revenue source code indicates one of the following:

- Change between FY2005 and FY2006 revenue is greater than 25% and \$10,000,000,
- FY2006 revenue is greater than \$5,000,000 and there is no accounts receivable amount,
- Receivable is greater than \$2,500,000 and greater than 25% of FY2006 revenue,
- Uncollectible is greater than \$500,000 and greater than 25% of the accounts receivable amount, or

- Deferred revenue is greater than \$500,000 and greater than 25% of the accounts receivable amount.

Clear concise explanations of **all** applicable conditions will limit follow-up questions during the Financial Reporting and Analysis Bureau's desk review and/or audit. Departments should be prepared to explain their fluctuations.

The Bureau's staff will also compare FY2006 accounts receivable, uncollectible and deferred revenue balances by revenue category to final amounts for FY2005 and may contact departments for explanations of significant increases/decreases. Departments should be prepared to explain their fluctuations.

- Note in cases where the FY2007 cash receipts received are different than the FY2006 receivable; the accounts receivable should be relieved in FY2007; but no adjustment should be made to the June 30, 2006 accounts receivable.

*Pending Accounts Receivable Reporting* -Any pending accounts receivable amount will be posted manually in the "Pending Accounts Receivable" column. These represent only receivables for which the department does not process on MMARS. The reasons should be noted, and the department or facility will need to support these amounts with auditable detail. Departments with long billing cycles are reminded to include all unbilled services performed by June 30 as pending accounts Receivables and coordinate with the Comptroller's Revenue Bureau for guidance.

**Uncollectible Amounts** -"Uncollectibles" represent the best estimate of the future collectibility of accounts receivable. Estimate the amount, if any, for uncollectibles based on the accounts receivable and the method for the calculation. If the department has uncollectible receivables, record the amount in the uncollectible column on the Accounts Receivable Report.

Please describe the method for calculating uncollectibles on the FY2006 Methods For Estimating Uncollectibles and Deferred Revenue form (Exhibit 4). For Summary A/R please note your best estimate of calculating an uncollectible. The methods we find acceptable are:

- Use of a percent by aging category that corresponds to past collection or disallowance experience, e.g., 5% of the accounts receivable aged for 31-60 days, 10% for 61-90 days and 25% for over 90 days past due
- All amounts unpaid for more than a certain period, e.g., more than 120 days after the due date
- Reporting all items in debt collection status as uncollectible in combination with one of the above criteria.

During the course of the fiscal year, departments will follow the Write-Off Guidance presented within the Comptroller's FY2006 Closing and FY2007 Opening Instructions. Departments will submit potential write-offs to the Comptroller's for review and approval. Upon approval, Revenue Bureau staff will process the write-off transaction (WO) in NewMMARS. Per the Closing \ Opening Instructions all FY2006 write-off requests are due by June 9, 2006.

When a department determines that it has a potential FY2006 write-off while reviewing the accounts receivable report, the department will include this amount within its estimated uncollectibles on the accounts receivable report and submit a request for an FY2007 write-off to the Office of the Comptroller.

**Deferred Revenue** -The concept of "deferred revenue" relates the earning of revenue to the collection of cash. It is the portion of the total receivable at June 30<sup>th</sup> that the department expects will take longer than one year to collect. If the department has deferred revenue, record it in the deferred revenue column on the Accounts Receivable Report to indicate that it will not be able to use the cash in the coming fiscal year. Deferred revenue does not reduce reported accounts receivable, because the revenue has been earned and is collectible.

Please note the estimation method of your deferred revenue on Exhibit 4.

For example, an invoice for \$100,000 is issued on July 2, 2006, for services provided from June 1 through June 30, 2006; the contract specifies that payment is not due until July 2007. At June 30, 2006, the department would report the \$100,000 as both accounts receivable and deferred revenue. This records the fact that the revenue event has occurred, but the confirming cash will not be available for more than a year. **The incidence of deferred revenue situations in the Commonwealth is rare.**

In order to facilitate desk review and audit, departments will analyze the reasonableness of their GAAP results by asking the following questions:

- Do the three components (accounts receivable, uncollectibles and deferred revenue) make sense in relationship to each other?
- Do receivables make sense in comparison to revenue?
- Did FY2006 revenue, accounts receivable or uncollectibles change significantly from FY2005? If so, why?
- Are any adjustments to the June 30 accounts receivable necessary?
- Have all receivables been reported?

These kinds of questions are asked during desk review by the Comptroller's Financial Reporting and Analysis Bureau, and they are asked by the auditors. By performing similar analysis while preparing the GAAP data, departments will reduce subsequent follow-up questions. We recommend that you include your analysis in the GAAP submission if necessary.

*Summary Revenue Event (RE) documents* – These transactions are used by departments authorized to maintain their detail billing, cash receipts and accounts receivable balances on Non-MMARS systems. These departments are required to record summary RE documents at least monthly. They must also reconcile their MMARS accounts receivable balances with their subsidiary systems monthly.

Departments will follow the write-off procedures described above for summary accounts receivable write-offs.

*Interdepartmental Voucher (ITA) Documents* – These are used to record the selling and buying of specific goods and services between various state departments. **ITAs do not generate GAAP interdepartmental receivables.** As discussed in the Closing/Opening Instructions, departments should make every effort to complete their FY2006 ITA activity by June 30.

*Revenue Category 08 (Other Financing Sources)* - This activity includes Comptroller-initiated activity such as proceeds of bond sales and operating transfers that do not ordinarily generate accounts receivable.

#### **Fixed Assets:**

Departments that own fixed assets are responsible for recording all acquisitions, betterments, changes, transfers, and dispositions for GAAP fixed assets and for a physical inventory of non-GAAP fixed assets.

Departments should process all FA documents within seven business days of the acquisition of the asset, or FA "Shell" generation. In addition, departments are required to process any subsequent Fixed Asset related documents (FC, FD, FI or FM) in the same timely manner. All FY2006 Fixed Asset activity must be posted to MMARS by July 11<sup>th</sup>, 2006. Any FY2006 transactions processed after July 11, 2006 may be subject to an audit finding with the exception of automated accounts payable period "Shell" generated FA activity.

The FC/FI documents require a CTR Work list approval. To process, copies of the FC/ FI "Accounting" page, - along with all necessary supporting documentation, should be forwarded to Patricia McKenna, Accounting Bureau, Office of the Comptroller. Please also note appropriate information within the

Document Control page.

Departments can use their discretion as to how to inventory and record all non-GAAP Fixed Assets activity.

For financial statement reporting, GAAP fixed assets are determined by certain unit cost thresholds, which are outlined in the following table:

**GAAP Fixed Asset Commodities & Minimum Capitalization Thresholds**

Commodity / Asset Type	Type Code	Minimum Capitalization Original Cost Threshold
Building	B	\$100,000
Equipment	E	\$50,000
Works of Art / Historical Treasures / Monuments	H	\$50
Infrastructure	I	\$100,000
Computer Equip. & Software less than \$1 million but greater than \$50 thousand	K	\$50,000
Land	L	\$50
Software greater than \$1 million	S	\$1,000,000
Vehicles	V	\$50,000

The determination of an asset's cost includes the original cost of a fixed asset when acquired along with any associated ancillary costs. Usually this is its purchase price or construction cost. If a fixed asset is donated, its estimated fair market value at the time of donation is recorded as its original cost.

**Non-GAAP (Memo Assets)** -For internal control and reporting purposes, the Commonwealth defines a Non-GAAP fixed asset as any piece of equipment, software, vehicle, etc., with an original unit cost less than the minimum GAAP capitalization threshold. All Non-GAAP Fixed Assets are required to be inventoried for the fiscal year on **June 30, 2006**, and recorded in MMARS or within a department's internal system by July 11, 2006. This inventory of Non-GAAP fixed assets should be retained for internal and external audit purposes.

This inventory should be available for audit on or before July 28, 2006.

**Impairment of Fixed or Other Assets and Insurance Recoveries**

The Government Accounting Standards Board (GASB) has released Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, applicable starting in FY06. The Commonwealth is required to evaluate prominent events or changes in circumstances affecting fixed or other assets, such as cash, to determine whether impairment has occurred.

In the case of a theft, fire, flood, obsolescence or other event regarding the usefulness of an asset, be it fixed or non-fixed such as cash, departments need to evaluate the usefulness or availability of that asset in the future. This may require outside assistance from an appraiser and or the Office of the Comptroller (CTR) to determine significance and applicability. Impairment must be conspicuous – e.g. known to the Commonwealth that a material event has occurred. These events may be known by management or the media.

**Policy**

All impaired assets if significant (greater than \$100,000 in value) need to be reported to the CTR General Accounting Bureau within 7 days of event occurrence. For all unaccounted for variances, losses, shortages or thefts of funds or property, the rules established under Chapter 647 of the Acts of 1989 apply. The CTR General Accounting Bureau will work with you to determine if impairment exists and if there is an event that needs to occur in MMARS.

#### **Assets Held In Trust:**

"Assets held in trust" are the cash and other assets which the Commonwealth holds in a trustee capacity for third parties. Examples include patient or inmate canteen and gift funds, property and bank accounts. Departmental detail concerning assets held in trust is ordinarily organized by asset type. For example, all patient bank accounts will be organized together, with detail support showing each individual patient's name and account balance.

In accordance with GAAP, the Commonwealth reports both the assets and the corresponding third-party liabilities. It also reports additions to, and deletions from, assets held during the fiscal year, in order to adequately disclose changes in its custodial responsibilities.

Departments with assets held in trust balances of **less than \$500,000** do not need to provide any GAAP detail. Please write "**N/A**" on the Transmittal Form.

Special GAAP reporting is needed only for those assets that are held at the department or facility, or at a local bank, and not accounted for through MMARS. Information on funds already deposited with the Treasurer's Office and recorded via a **CR document** should not be reported, or they will be double-counted. The Helpline can provide information about whether or not such assets are already accounted for on MMARS.

*Method* -As shown in Exhibit 5, the FY2006 beginning balance for each asset type is the amount the department reported at the end of FY2005. The department will supply FY2006 additions, deletions, and ending balances for each asset type. Additions include both new assets and increases to assets held at the end of FY2006. Deletions include assets reclaimed by the third-party owner (e.g., patient), used by the third party, or used on his or her behalf.

The department should provide explanations for significant fluctuations in total assets held in trust according to the following criteria:

- FY2006's balance is \$500,000 greater or less than the FY2005 balance
- FY2006 additions or deletions are more than \$1,000,000 and 25% greater or less than the corresponding amount reported in FY2005.

The third-party assets, as well as the department's summary records, should be available for audit examination.

#### **Materials and Supplies:**

Materials and supplies are consumable items used in departmental operations. Examples include office supplies, medical supplies and repair materials. Materials and supplies are ordinarily maintained in a central storage area where they can be physically safeguarded, and where they can also be counted (inventoried) efficiently.

*Method* -If the department, facility or location estimates that its materials and supplies have a value greater than \$500,000, a physical inventory should be taken between June 20 and the close of business on June 30, with the date and time noted for potential audit follow-up. Special GAAP reporting was eliminated beginning in FY2005.

**Leases:**

Within the MMARS policy in the Knowledge Center, "*State Finance Law and General Requirements*" there is extensive discussion on lease contract policy and procedures. Also refer to the Fixed Asset Acquisition policy, also in the Knowledge Center, for information regarding capital and tax-exempt lease purchases (TELPs).

**Decentralized Departments:**

Departments that report at the facility level will receive a Decentralized Departments Supplement and individual follow-up as needed to support complete and consistent reporting.

**Institutions of Higher Education:**

We are updating guidance specific to audited institutions. When available, it will be posted on the Knowledge Center.

**Vacation and Sick Leave Balances:**

All departments are on the HR/CMS System. The Comptroller's Office will use this report to calculate compensated absence accruals, no action is needed by departments. The departments are responsible for accuracy of the personnel data. Departments must verify that all accrued vacation and sick leave buyback balances are recorded on HR/CMS.

When employees earn the right to compensated absence time and can carry it forward from one fiscal year to the next, a liability is created. At year end the employer "owes" the employee a certain amount related to past service, which can be calculated from the accumulated amount of unused time earned and the employee's current rate of pay. Under GAAP, the Commonwealth must measure and record this liability. For statutory basis reporting this is not an issue, since the Commonwealth uses the "pay-as-you-go" method. The Comptroller's Office will use the HR/CMS Report HMBEN008 to calculate these liabilities. During the audit, this report will be used to verify compensated absence data. Departments will be contacted if additional analysis is needed.

**Accounts Payable:**

In general, departments should follow the FY2006 Closing / Opening instructions with regard to accounts payable. These instructions are posted in the Knowledge Center. In general, statutory encumbrances will equal the GAAP accounts payables. However, there are certain exceptional situations in which a GAAP payable exists (goods have been received or services performed by June 30, 2006), which will require special GAAP reporting. On the statutory basis, these liabilities will be encumbered and paid from FY2007 appropriations, but they must be recognized in FY2006 for GAAP. If a department suspects that such a payable exists, the department should contact the MMARS Helpline and ask to be routed to the Financial Reporting and Analysis Bureau for guidance.

**Audit:**

Departments must comply with document retention policies set forth in the Knowledge Center. Departments should retain a copy of the GAAP information on site for the Office of the State Auditor or the Commonwealth's Independent auditors.

**Documentation Guidelines:**

Completed GAAP forms should be signed (or initialed on line) by an authorized signatory. Signers will be the primary contacts for follow-up questions from both Comptroller's Financial Reporting and Analysis Bureau and auditors.

When an amount is estimated, the documentation should include the procedures, assumptions, computations and methods used to develop the estimate. This documentation should also be readily available for audit review.

**Calendar of Events:**

The calendar of GAAP events is included within the closing calendar detailed in the FY2006 Closing / Opening Instructions.

**Due Date for Submission of Forms:**

All GAAP information covered in these instructions has a uniform due date that must be met – **Monday, August 7, 2006**. A GAAP reporting transmittal form is used (attached as a .pdf document below.)

**Information Sources**

Legal Authority – [M.G.L. C.7A](#)  
[M.G.L. C. 29](#)  
[U.S. General Accounting Office Standards](#)  
Government Accounting Standards Board Statements  
Audit Standards Board Statements of Auditing Standards  
[AICPA State and Local Audit Guide](#)

Attachments – [Exhibits](#)  
[Blank Forms](#)

Links

**Accounts Receivable** – [Receivable Recognition and Reconciliation Policy](#)

**Fixed Assets** – For further fixed asset guidance, refer to the following MMARS fixed asset policies posted in the Knowledge Center.

- [Accounting and Management Policy](#)
- [Acquisition Policy](#)
- [Impairment of Fixed or Other Assets and Insurance Recoveries](#)

Contacts – [MMARS Helpline](#) 617-973-2468. Helpline staff should be informed that the Financial Reporting and Analysis Bureau should be notified immediately of any GAAP or financial statement related questions.